Macro Flash Note

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THE FED CUT RATE BY 25BPS WHILE INTERNAL DECISION DIFFERED. MARKETS PRICE IN 02 ADDITIONAL CUTS TOTALING 50BPS IN 2026.

At the December meeting (December 10, 2025), the US Federal Reserve (Fed) executed its third-interest rate reduction of 2025, lowering the target range for the federal funds rate (FFR) from 3.75%–4.00% to **3.50%–3.75%**, corresponding to a cut of 25 basis points (bps).

Broadly, this rate decision offered few surprises to the market; however, ancillary decisions regarding liquidity management emerged as the focal point, outlining the roadmap toward Quantitative Easing (QE) in 2026.

Key Decisions from the December Meeting:

- **Rate adjustment:** Lowered the FFR target range by 25bps to **3.50%–3.75%**.
- **Repo operations:** Set the Standing Repo Facility rate at 3.75%.
- **Reverse repo (RRP):** Set the Overnight Reverse Repurchase Agreement (ON RRP) offering rate at 3.50% with a counterparty limit of **US$160bn per day**.
- **Balance sheet operations:** The Fed, via the Open Market Trading Desk, plans to purchase approximately **US$40bn per month** in Treasury bills (T-bills) or Treasury securities with maturities under 3 years. This will be conducted through **Reserve Management Purchases (RMP)** to maintain ample reserves.

Summary of FOMC December Economic Projections (SEP):

- **GDP growth:** Projections for 2025 and 2026 were revised upward.
- **Unemployment rate:** Forecasts remained unchanged.
- **Core PCE inflation:** Projections were slightly lowered compared to the September meeting.
- **Dot Plot:** Expectations for the FFR in 2026 remain unchanged, implying two rate cuts totaling 0.50% (50bps).

ACBS's QUICK COMMENT:

The Fed's December decision is widely characterized as a **"hawkish cut"**—easing policy while maintaining a vigilant stance on inflation.

The decision to bolster system liquidity via RMP rather than direct Quantitative Easing (QE) partially underscores this assessment. The Fed appears focused on **stabilizing short-term funding costs, even as long-term yields remain elevated.** While inflation expectations for 2026 have been revised downward since September, the potential impact of tariffs still requires close monitoring.

Market pricing via Overnight Indexed Swaps (OIS) on December 11 indicates the Fed is viewed as one of the few central banks retaining policy space for further easing in 2026, with markets pricing in two cuts of 25bps each.

To sustain growth momentum against headwinds from "Trade War 2.0" and softening drivers in key economies (US, EU, China, Japan), **many nations have pivoted toward fiscal stimulus.** Measures include increased government spending, raising public debt ceilings, tax incentives for strategic industries, and boosting domestic consumption. This trend is evidenced by the persistent rise in long-term government bond yields (10Y+) despite central bank easing cycles throughout 2024–2025. According to Bloomberg, the global aggregate index for 10Y+

government bond yields has reached its highest level since 2009, reflecting concerns regarding fiscal expansion and unsustainable public debt trajectories in the coming years.

Implications for Vietnam's Monetary Policy

The Fed's December cut generally helps **alleviate pressure on the USD/VND exchange rate** by reducing the carry trade appeal of the USD; however, the magnitude of this impact is marginal. The interbank exchange rate has cooled slightly, correcting from VND26,366 to VND26,347 per USD.

However, a concern remains that **demand for VND liquidity within the interbank system**. This liquidity constraint has paradoxically helped mitigate USD/VND volatility in recent days. Over the last two weeks, the State Bank of Vietnam (SBV) utilized USD-VND FX swaps three times, totaling US$1.5bn, to inject VND liquidity into the interbank system, alongside Open Market Operations (OMO) with outstanding volume averaging VND350tn–390tn. The swap curve on the interbank market on December 11 continued to steepen across all tenors compared to the previous session, with the overnight bid-ask spread rising from 3.6%–3.8% to 3.7%–4.0%, reflecting a sustained pressure in the interbank interest rate environment.

Outlook for 2026: We assess that pressure on exchange rates and interest rates will persist, even with the expectation of two additional Fed cuts next year. The interest rate environment is trending upward in both the client-facing (Market 1) and interbank (Market 2) markets due to the prolonged gap between deposit and credit growth. This structural imbalance has led to temporary liquidity shortages as the room for intervention via current channels begins to narrow.

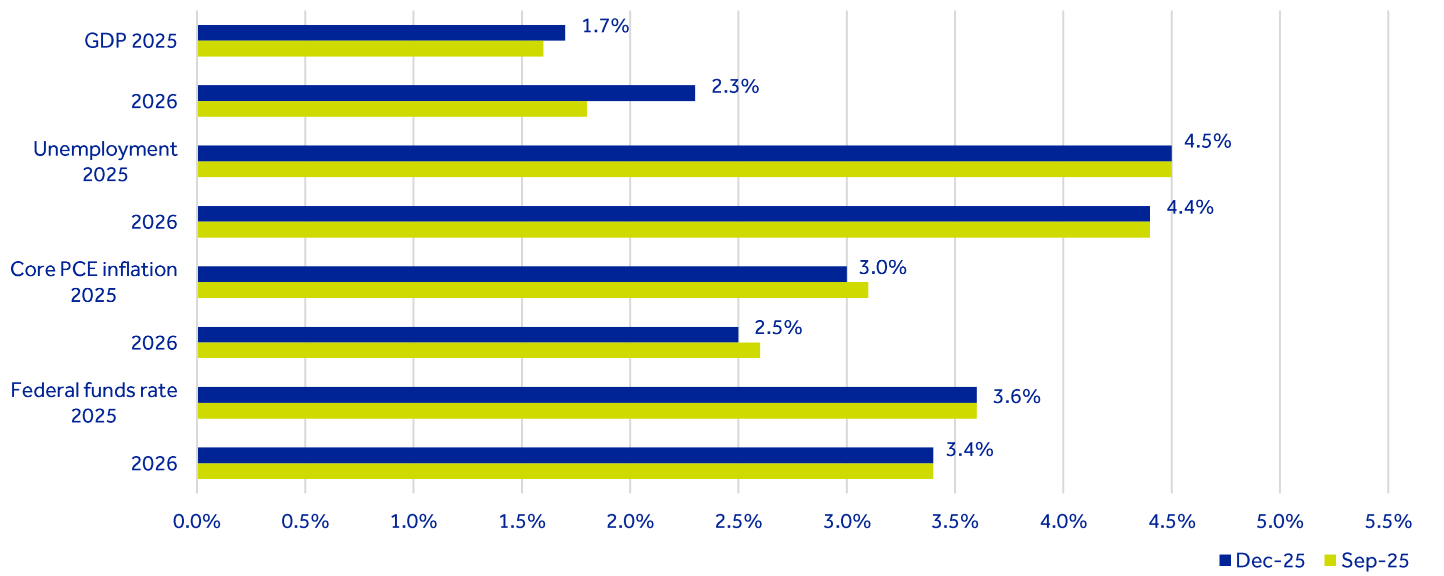
Implications for the Vietnam Stock Market

Market reaction in key indices such as the US, Japan, and South Korea was relatively muted following the Fed's cautious and widely anticipated move. Most Asian indices are currently trading in the negative territory, while futures contracts for the Dow Jones, S&P 500, and Nasdaq are all pointing lower.

Domestically, **the VN-Index opened lower, with selling pressure concentrated on the Vingroup family of stocks on December 10 and 11.** Consequently, we maintain a cautious outlook, expecting trading activity to remain lackluster through year-end, driven by declining liquidity and an absence of fresh catalysts to improve sentiment and attract capital flows.

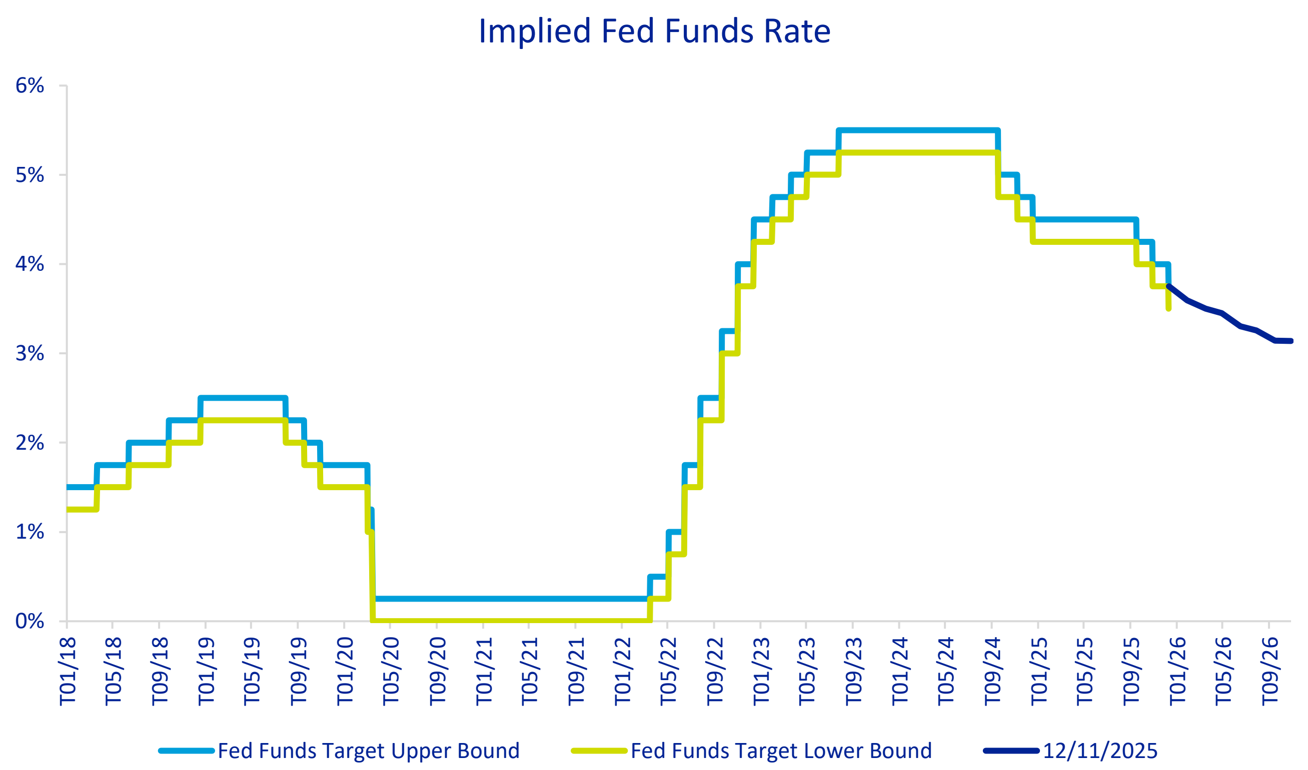
Appendix

Summary of FOMC December Economic Projections



Source: FOMC

Implied Fed Fund Rates in 2026



Source: Bloomberg

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